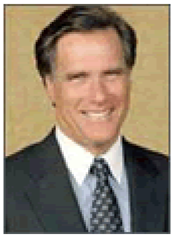
Governor's Message



Governor
Mitt Romney

Our state is at a crossroads. We can either seize this opportunity to fundamentally restructure government, or we will have to accept yearly tax increases to pay for the inefficient, wasteful structure now in place.

My 2004 budget recommendation offers common sense reforms. In many respects, it contains more sweeping change than state government has seen in the previous 50 years. I call this program *Common Sense for the Commonwealth*, and it draws upon some of the best practices of other states as well as those of large enterprises in the private sector.

Why are we proposing these changes? Because our fiscal crisis demands it. But also because we need to protect our economy and jobs from ever-increasing taxes. We owe the six million citizens of Massachusetts a government that works without constantly asking them for more.

My turnaround plan for state government will not affect our highest priorities - education and economic growth.

The education of our children is the measure of our generation’s success or failure. Testing and accountability must continue. We insist that our children are taught and are fluent in English. Foundation level spending on K-12 classrooms will be preserved for every city and town in the Commonwealth.

My budget will allow us to build our economy and create more good jobs with a new focus on economic development and smart growth. Our state government spends billions of dollars each year. Properly channeled, these dollars can be a powerful tool. Our new Executive Offices of Commonwealth Development and Economic Affairs combine six departments and agencies that will work together to rev up the economic engine.

We can no longer continue to pass off our financial difficulties on the hardworking people of Massachusetts.

I get hundreds of letters, emails and phone calls from working people who are fed up with the high cost of government. Not long ago, I received a letter from Mary Coughlin, who says she has trouble making ends meet with phone bills, medicine and heating costs.

Mary says, "When I go over my budget, I can‘t go to my neighbors and ask for their money to pay my bills, but the government thinks nothing of raising taxes all the time."

She’s right. That’s why throughout this budget planning exercise, I have been guided by three principles.

First, we eliminate every speck of waste and inefficiency. My budget consolidates management of the Massachusetts Turnpike Authority with the rest of our transportation department. The Metropolitan District Commission and Department of Environmental Management will be abolished and their functions combined into the new Division of Conservation and Recreation.

Patronage hires in the judiciary are targeted, and we close down underutilized courts. The patchwork quilt of higher education campuses are transformed into a more powerful regionalized system. The confusing maze of health and human services agencies will be replaced by a system with a single portal for all needs. And restrictions placed on the state workforce are removed to make public sector employment more like jobs in the private sector.

Second, we focus on delivering the core missions of government. Over the past decade, our state has drifted far away from its core mission. The Commonwealth has granted free, subsidized services far beyond any definition of real need and in excess of our ability to pay for it.

To give just one example, for every three taxpayers, there is one person getting free health care. This is not fair, and it's not right. Without a new vision of shared responsibility, where every family contributes something to its own well being, surging costs will overwhelm us all.

And finally, we insist that our cities and towns - which have benefited from generous increases in state aid - share in the belt tightening. Over the past decade, state aid to municipalities has grown at an average annual rate of 7.5 percent. Now, state tax revenues have collapsed - even as real estate taxes continue to rise in support of local budgets. By sharing the burden in the bad times, our local communities can more legitimately make a case to share in the prosperity when the good times inevitably return.

There are many areas unaffected by our efforts to close the budget gap. Veterans' benefits, welfare payments to the poor, childcare funding and homeless assistance are all fully preserved. In fact, our total state spending for health and human services will grow next year under my budget.

As we work to close the budget gap, government spending in Massachusetts will remain among the highest in the nation on a per capita basis. We will always be a generous state, but we cannot afford to be more generous than our ability to pay.

In my budget, you will also see long-overdue reforms that improve the way we train and motivate our workforce. There will also be new and higher fees as we attempt to rationalize the system for providing direct and specific services to the public.

Of course, there will be resistance to these changes. The defenders of the status quo will want to go back to the old way of doing things, with year after year of tax increases. For us to succeed, you will need to let your voice be heard.

I encourage you to call or write your legislator. Join me in this great undertaking.

The key choice is change or perpetual tax increases. New taxes kill jobs and make us less competitive. They drive away employers and discourage growth and productivity. To avoid this peril, we must show the resolve necessary to embark on a new road that will put us on the path to economic prosperity.

Our future is bright. With your help, we will make Massachusetts a great place to live and work.

Executive Summary

Highlights

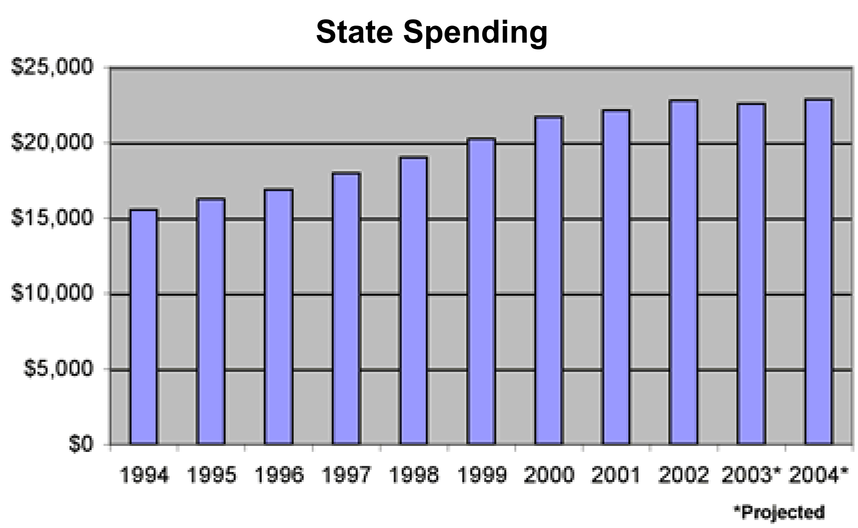
The Commonwealth of Massachusetts faces its deepest fiscal crisis since the Great Depression of the 1930s. With this crisis, we also have a tremendous opportunity to permanently change the way state government operates and reform the current wasteful and inefficient system. We must seize this moment.

Fiscal integrity with no new taxes

In the face of a $3 billion budget deficit despite last year's billion-dollar tax increase, the Romney budget is balanced:

- without new taxes
- without tapping dwindling reserves
- without borrowing against the future
- without the use of fiscal gimmicks, such as slowing the pace of pension recapitalization or securitizing tobacco payments.

Governor Romney's $22.86 billion budget will boost spending by less than 1 percent over projected 2003 levels, the smallest increase proposed by any Governor since 1992.



Revitalize public service

Many aspects of public service in Massachusetts have not kept pace with the changes in our economy. We need to adopt common sense employment practices in order to achieve true reform in state government.

For example, our pension system, which is modeled after 1950-style corporate America, demands updating. Civil service, a 19th century hiring system, must be replaced with a more modern and professionalized human resources system. Managers who are unionized are caught in a perpetual conflict of interest with the union employees they are asked to supervise. Ironclad seniority means that performance plays a reduced role in career advancement. And our dynamic private sector is virtually prohibited from delivering services even when they could provide better quality at a lower cost.

State government's outdated system prevents the Commonwealth's talented workforce from reaching its full potential. The Romney budget:

- eliminates civil service
- removes supervisors from union membership and reclaims basic management rights
- reforms restrictions on private sector outsourcing.

Customer comes first

Our dynamic private sector illustrates the value of customer focus and government should follow their lead. A rigid approach is too often unresponsive to taxpayer needs. A confusing maze of agencies and forgettable acronyms cannot provide the best access. Duplication in services only wastes valuable resources.

Regional customization

Although we are a small state geographically, we enjoy a rich diversity from the urban bustle of Boston to the pristine Berkshires, from the Cape and Islands to the high-tech corridor between Routes 128 and 495.

The Romney budget reflects the unique regional character of our Commonwealth by defining seven different geographic regions to:

- transform individual higher education campuses into a new seven-region system;
- customize economic development for regional differences
- shift health and human service delivery to a new regional

model.

One-stop service delivery

The Internet introduced us to the “portal” concept: a single place to access information, conduct transactions and check on past actions. Information technology, along with substantial changes to “brick and mortar” offices, can make this an exciting reality for state government.

The Romney budget embraces this one-stop concept by:

- integrating health and human service delivery into a single access point, supported by both new back office technology and the consolidation of physical locations;
- increasing reliance on the Web for timely access to important information;
- accelerating development of Web-based transactions to further boost customer convenience and cut administrative costs.

Cut costs, improve quality

America’s success is testimony to the reality that, in a free economy, continuous quality improvement leads to lower costs. We see this trend clearly in our home computers, clothing, food and motor vehicles. It has helped make us the envy of the entire world.

The method of achieving this miracle, however, is not often discussed outside the business community. The private sector revolves around continuous improvement and reform, which often means frequent reorganization and new ways of doing things. Everyone who has worked in the private sector expects change. But in government, the expectation is that things will remain the same.

The Romney budget proposes more change to our state government than the Legislature has enacted in the previous 50 years. We are truly operating in the 21st century with a 19th century bureaucracy.

Instead of isolated agencies each with its own overhead structure, the Romney budget streamlines shared functions like:

- legal services
- public relations
- human resources

- information technology
- legislative affairs.

Related government programs have been combined to provide better services:

- health and human services – almost half of total spending – will be restructured to reduce administrative costs while funding more direct care;
- public higher education, which is now a loose collection of independent campuses, will be reconfigured into a new regional system without compromising the mission of providing affordable access to higher education
- administration of the courts will be significantly streamlined to take out the waste, patronage and duplication that has hampered the judicial system
- the Massachusetts Turnpike and the Highway Department will be merged under common management
- independent registries of deeds will be coordinated through a common technology infrastructure.

In addition, public policy will be better coordinated through a reorganization of the Executive Branch, including the following new secretariats:

- Education, covering both K-12 and higher education
- Commonwealth Development, covering transportation, housing and the environment
- Economic Affairs, covering regional business development, labor, consumer, business, and technology issues.

This budget proposal and accompanying legislation accomplishes many of these reforms. Others will be achieved through proposals to be filed this Spring:

- Pension Reform;
- Public Construction Reform
- Article 87 Executive Branch Reorganization.

Simple, flexible and user-friendly

Past budgets have been overwhelming in their complexity … for a reason. Complexity is the friend of special interests. An isolated line item appropriation is easily defended. A segregated fund is easily protected. Old-style budgets – filled with thousands of line items, funds, earmarks and obscure legal references – can be passed with few citizens understanding what their government is actually doing.

The taxpayers who fund this budget deserve much greater transparency. Budgets should be easy to understand. The structure should be simple. Managers should have the ability to make decisions in their respective areas of expertise without undue legislative micro-management. The average citizen should be able to quickly find out how tax dollars are being spent.

The Romney budget fundamentally alters the framework of the budget process by:

- eliminating all minor funds not required for accounting operations;
- creating Master Accounts to simplify allocation of resources;
- changing the role of line item accounts in the management of state government;
- putting the budget solely online, with full search capability, for everyone in Massachusetts to access
- eliminating all earmarks.

Executive Summary

Economic Conditions

Following the longest economic expansion in U.S. history, the 1990s culminated in over-investment in information technology, followed by a collapse of business investment and recession beginning in March 2001. The sharpest stock market decline in many decades wiped out considerable wealth and sent consumer confidence plummeting.

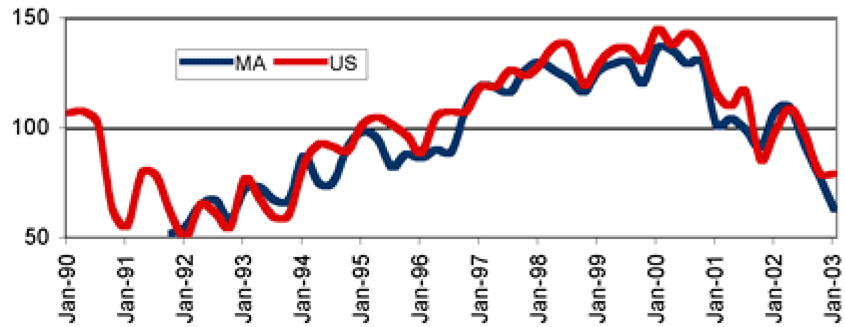
Unprecedented national uncertainty

The economy continues to struggle in a period of unprecedented national uncertainty. Six months into the recession, the nation suffered the horrific September 11th terrorist attack. The economic impact of the attack briefly abated following the war in Afghanistan. However, continuing weakness in the stock market was followed by deteriorating business conditions as employment continued to drop and the crisis in

Iraq grew over the last year.

Business confidence in Massachusetts has been declining sharply since early 2000 and it remains at a level comparable to the recession of the early 1990s. Consumer confidence, both in Massachusetts and nationally, continues to decline.

MA and US Consumer Confidence



Sources: US Conference Board and MassInsight

An investor's recession

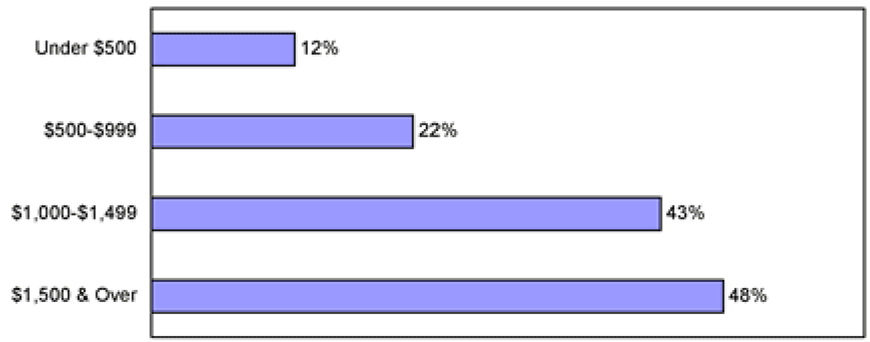
Economic downturns are always hardest on those with fewer resources. But the recent recession also had an unusually strong impact on those at higher income levels, with profound consequences for state revenues.

The most obvious and important illustration of this has been the decline in capital gains. After mushrooming eight-fold from 1988 (the last pre-recession year) to 2000, capital gains realizations in Massachusetts dropped by 57 percent in 2001 (the last year for which complete data is available). Declines in capital gains tax receipts have continued in the current fiscal year. During the 1989-91 recession, capital gains were a much smaller part of the tax base and, therefore, did not suffer to a comparable extent.

In terms of employment, job losses have been unusually concentrated at the higher end. From 2000 to 2001, unemployment claims in Massachusetts rose 69 percent among those with four or more years of college compared to 25 percent for those with less education. In the recession of 1989-1991, about 13 percent of job losses in Massachusetts were in the high-tech sector whereas in the current recession, a full 42 percent were concentrated in that sector.

Wages and salaries in the high-tech sector average 85 percent higher than in the rest of the Massachusetts economy. Growth in unemployment claims between 2000 and 2001 was slowest among the lowest paid (12 percent for those with weekly earnings below $500) and most rapid among the highest paid (48 percent for workers with weekly earnings of over $1,500).

Increase in Unemployment Claims, 2000-2001, by Weekly Wage



Source: Massachusetts Division of Employment and Training

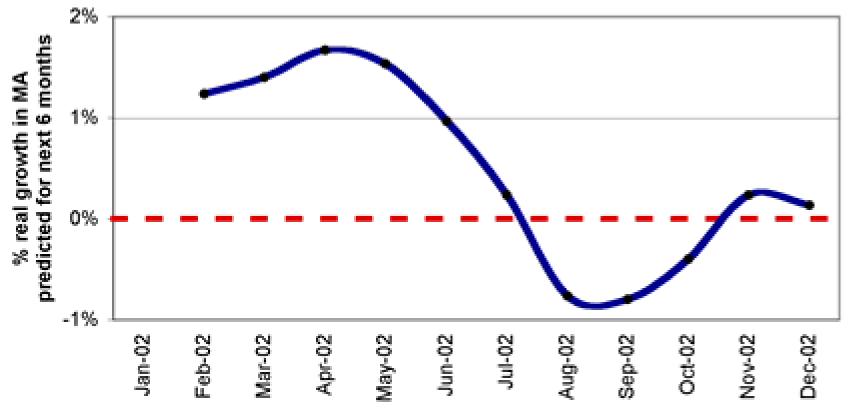
The concentration of job loss at the high end – jobs where bonus payments were an important part of compensation – means that a relatively mild recession in terms of employment loss produced large declines in taxable earnings.

No evidence yet of recovery

There is no indication yet of an imminent recovery. The Boston Federal Reserve Bank summarized its most recent business survey by stating that the region's economy "remains soft."

There are some indications (such as the apparent stabilization of state corporate profit tax receipts) that the worst may be over for much of the Massachusetts business sector. However, this likely reflects cost cutting rather than sales growth. Employment – which is usually a lagging indicator – continues to drop at an annual rate of 1.5-2 percent. The University of Massachusetts Benchmarks Index of leading indicators predicted slow economic growth earlier this year (as did other forecasters), but now projects a flat economy over the next six months.

Massachusetts Benchmarks Index of Leading Indicators



Source: University of Massachusetts

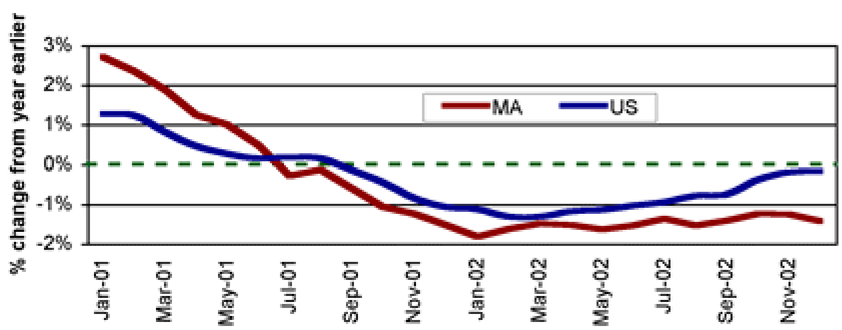
Massachusetts last in, last out

The downturn hit Massachusetts later than much of the rest of the country, but it also appears that our recovery may be later and slower.

The U.S. GDP was negative for the first three quarters of 2001, but has since turned positive with 2.4 percent real growth in 2002. No official Massachusetts data are available yet for that period, but UMass Benchmarks data indicate that Massachusetts has yet to return to positive growth.

Employment grew more rapidly in Massachusetts than in the nation as a whole at the beginning of 2001, but then declined. Unlike U.S. employment, state employment has not yet recovered.

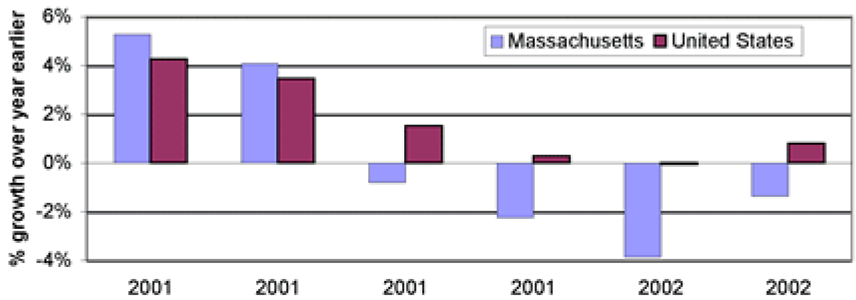
MA and US Employment Growth, 2001-2002



Source: U.S. Department of Labor, Monthly Employment Survey
Note: revised data for 2002 will be released in March 2003

A similar pattern holds for growth in total wages and salaries.

Total Wage & Salary Growth: MA and US



Calendar Year Quarters
Source: U.S. Department of Commerce, Bureau of Economic Analysis

These patterns are in part attributable to Massachusetts' greater concentration in high technology and financial services, sectors that remain sluggish.

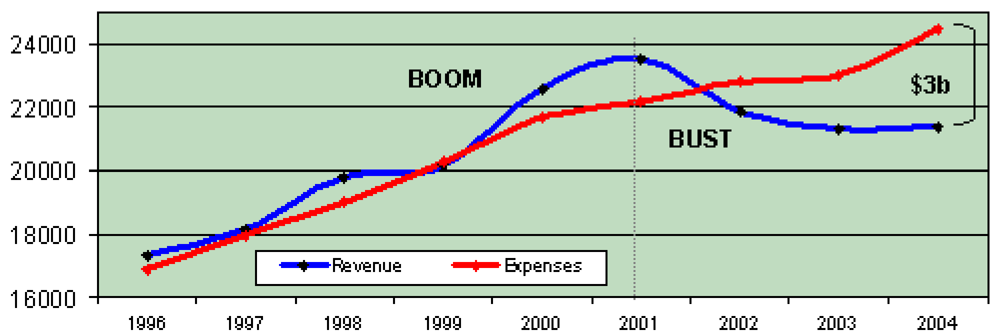
Commonwealth's Fiscal Status

A slowing economy and steady increases in state spending have combined to reveal a large structural deficit in the Commonwealth's budget.

Boom & bust

During the 1996-2001 boom, revenues outpaced state spending, temporarily masking a basic structural imbalance in the Commonwealth's budget. A structural problem occurs when maintenance spending (the cost of maintaining existing programs) is driven by factors that are independent of state resources. Our fiscal stability will not automatically be restored when the economy recovers.

Revenue vs. Maintenance Spending (in $ millions)



Between 1992 and 2001, state revenues increased annually by 6.2 percent while spending grew by 5.7 percent. But in 2002, spurred by stock market losses that have resulted in lower capital gains tax receipts, revenues began to drop.

After reaching a $1 billion peak in 2001, capital gains tax receipts are projected to be just $259 million in 2003. The gap between anticipated revenues and maintenance spending in 2004 is projected at $3 billion.

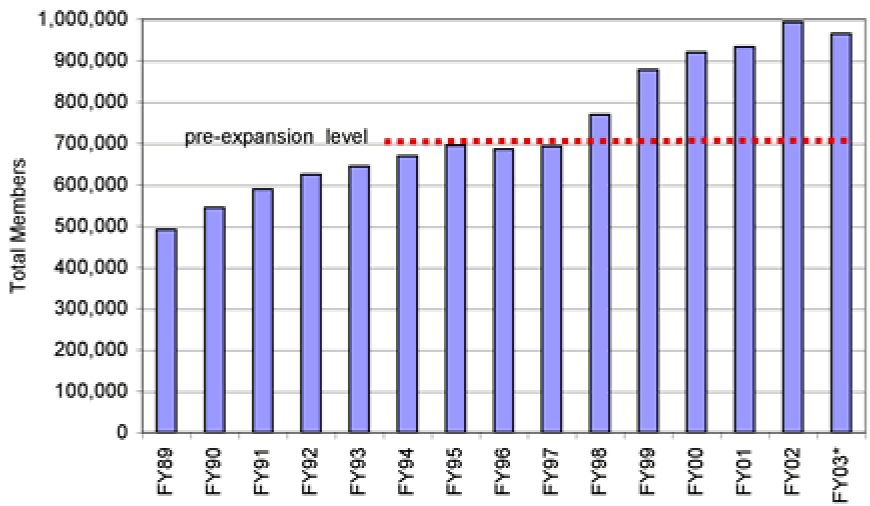
The health and rehabilitation crisis

The cost of state programs is not directly connected to anticipated revenue. This is especially true for health and human service programs. Even as revenues have fallen, spending growth in these programs has accelerated. For the most part, these programs are heavily regulated by the federal government and cannot easily be modified by unilateral state action.

MassHealth, or Medicaid, has grown by 76 percent since 1997 and is projected to increase another 9 percent in 2004.

Although nearly all MassHealth expenditures are shared with the federal government, net state costs will be nearly $3 billion this year. The Division of Medical Assistance, which administers MassHealth, has implemented a number of cost control initiatives in recent years, but those efforts have been outpaced by health care cost inflation, new technologies, increased reliance on prescription drugs, increased use of long-term care services and overall increases in enrollment.

MassHealth Membership Trends



Other health and human service areas have also experienced rapid cost growth. Increased caseload for residential group care placements has driven a 54 percent increase in Department of Social Services spending since 1997. Although Department of Mental Retardation spending has grown at a slower pace – 21.9 percent over the past five years – its total 2003 budget will be just under $1 billion.

In addition, the current operation of the Uncompensated Care Pool puts financial pressure on hospitals and other providers. A solution will require a consensus approach that meets applicable federal requirements, draws upon additional federal dollars, and conforms to the Commonwealth's budgetary constraints.

Our challenge is to find efficiencies that will allow us to continue delivering core services to the most vulnerable among us.

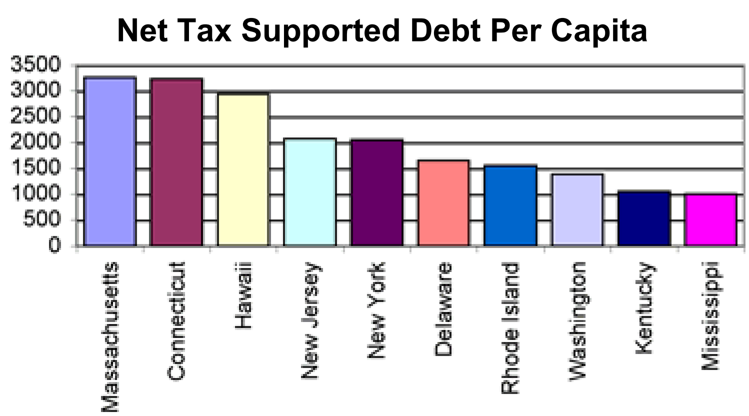
Depleted reserves

The Commonwealth's ability to bridge the gap between revenues and spending through the use of reserves is dwindling. At the end of 2001, the Stabilization or "Rainy Day" Fund reached $2.3 billion. But after two years of declining revenues, only $338 million remains. If the fund were to be tapped at the same rate as the last two years, it would be emptied in 2004.

Reserve Fund	As of Jan 03	Contingency	FY04 balance
Health Security Trust	515.0	-	515.0
Stabilization Fund	338.0	75.0	338.0
Tobacco/Health Protection Funds	59.0	59.0	2.8
Community Preservation Act Fund	60.0	-	60.0
Medical Security Trust	5.7	-	6.0
Caseload Mitigation	30.0	30.0	-
Total	1,007.7	164.0	844.0

Maxed out borrowing capacity

After health and human services and education, debt service is the largest item in the budget – over $1.5 billion in 2003. Massachusetts has the highest debt burden of any state in the nation so additional borrowing to close the 2004 budget gap would only exacerbate the fiscal crisis.



Raise taxes or cut spending?

In any fiscal crisis, the gap between revenues and expenses may be bridged by a combination of revenue increases and spending reductions. In 2002, the Legislature passed the largest single tax increase in Massachusetts history.

The Romney administration has already taken the initiative in 2003 to raise non-tax revenues by maximizing federal reimbursements and increasing fees.

But the question remains: why not raise taxes in 2004 to fill the remaining gap instead of making cuts to programs that will inevitably cause some hardship to those now receiving state services?

Raising taxes carries its own set of costs. It hurts the working families of our state. It puts the brakes on our economy, costing people jobs and our state tax revenue. It diminishes our competitiveness with other states. And tax increases do nothing to solve the underlying structural imbalances in our state budget.

If we used taxes to resolve our fiscal crisis this year, we would need to:

- increase sales tax from 5 percent to 6 percent; and
- increase income tax from 5.3 percent to 6.5 percent.

This 20 percent increase in sales and income taxes would cost a typical family about $1,000 each year. And that would only take care of this year's problem. If we don not reign in unsustainable spending increases, state government would be forced to raise taxes again next year.

The way we manage this crisis will define the Commonwealth of the future. Last year, Massachusetts was one of only a few states that resorted to broad-based tax hikes to solve the budget deficit. On the heels of this more than $1 billion increase, further tax hikes would recall the bad old days of "Taxachusetts," send the wrong signal to businesses and families and delight our neighbors in New Hampshire who would be the net beneficiaries of our action.

Core Principles

Despite immense challenges, we must adhere to three core principles:

1. **Eliminating waste and inefficiency**

   Restoring fiscal balance starts with a careful accounting of every taxpayer dollar. At a time when families across the Commonwealth are finding new ways to save and make do with less, state government needs to do the same. The Romney budget streamlines government and improves the delivery of services by zeroing out waste and inefficiency. It combines and simplifies agencies to prevent needless duplication, coordinates programs, and adopts common sense employment practices. Merit and performance replace cronyism and patronage as the standards governing the administration of state programs.

2. **Delivering the core missions of government**

   Helping those who cannot help themselves will remain a priority in our budget decisions. Veterans' benefits, welfare payments to the poor, childcare funding and homeless assistance are all preserved in the Romney budget. But, over the last decade, our state has drifted far away from its core mission. We have granted free and subsidized services far beyond the definition of real need and in excess of our ability to pay for it. We will still be one of the most generous states in the nation, but we will only be as generous as we can afford to be. We will adopt a new vision of shared responsibility, where every family contributes something to its own well-being.

3. **Sharing the sacrifice with cities and towns**

   Over the last decade, state aid to cities and towns has grown an average of 7.5 percent each year, a generous benefit during good times. But the current fiscal crisis has caused state revenues to collapse even while local revenues have remained steady. The Romney budget calls on cities and towns to share equally in the sacrifice while the state weathers this temporary storm.

Assumptions

The Romney budget makes several important assumptions.

Article 87 Executive Branch reorganization

In tandem with this budget recommendation, the Romney administration will file an Article 87 reorganization timed to coincide with the beginning of Fiscal Year 2004. Article 87 is a provision of the state constitution that enables the Governor to make changes in the Executive Branch subject to a single up or down vote of the Legislature.

State agencies often provide similar or related services without ever communicating with one another. This “silo” structure has resulted in duplication of services, poor coordination and unnecessary overhead costs. The Article 87 reorganization will propose a sweeping overhaul with streamlined secretariats, fewer departments, and increased policy coordination.

Consolidation of shared functions within Governor’s Office

Legal functions will be consolidated within a new Office of Solicitor General under the Governor’s Office. The Governor’s Executive Office budget also reflects consolidation of public relations and legislative personnel. Specifically:

- Over 800 salaried and contract lawyers throughout the Executive Branch will be reduced and organized under the Office of Solicitor General, which will report to the Governor’s Legal Counsel. This consolidation will save $5 million.
- Executive Branch public relations personnel are cut 50 percent, saving $1.2 million. Secretariats will have dedicated press liaisons coordinated through the Governor’s communications office.

Information Technology

A new Chief Information Officer located within the Executive Office for Administration and Finance will oversee all information technology strategy for the Executive Branch. Planned actions include consolidation of data collection and improved network security to meet homeland security requirements. Centralized infrastructure improves resource sharing, reduces duplication and incompatibility, and will save millions of dollars.

Human Resources

Responsibility and budget for all human resource professionals in Executive Branch agencies are consolidated at the secretariat level under a single director of human resources. Better coordination of human resource policy, increased flexibility and accountability and less duplication of effort will result in long-term savings.

Reformatted cabinet

Executive Branch management is organized under six secretariats and 13 members of the Governor's cabinet:

1. Executive Office for Administration & Finance [Eric Kriss]

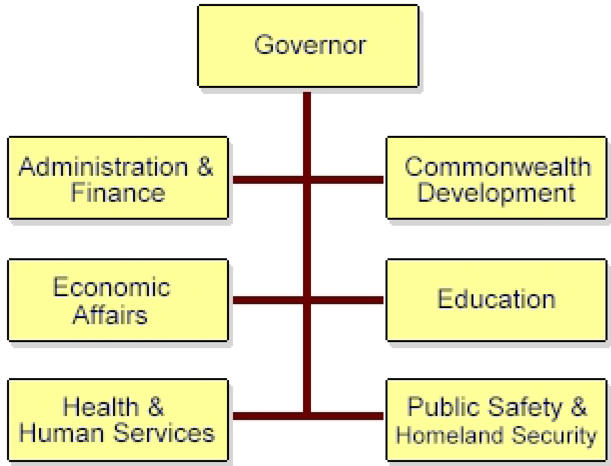
2. Executive Office for Commonwealth Development [Doug Foy]
    - Secretary of Transportation [Dan Grabauskas]
    - Secretary of Environment [Ellen Roy Herzfelder]
    - Secretary of Housing & Community Development [Jane Gumble]

3. Executive Office for Economic Affairs [Robert Pozen]
    - Secretary of Labor [Jane Edmonds]
    - Secretary of Business & Technology [Barbara Berke]
    - Secretary of Consumer & Commercial Services [Beth Lindstrom]

4. Executive Office for Education [Peter Nessen]

5. Executive Office for Health & Human Services [Ronald Preston]
    - Secretary of Elder & Veteran Affairs [Jennifer Carey]

6. Executive Office for Public Safety & Homeland Security [Edward Flynn]



Commonwealth Development

A new Executive Office for Commonwealth Development unifies key policy initiatives in transportation, environmental affairs and housing.

Within transportation, a fragmented management structure will be replaced by divisions for roadways, mass transit and airports all reporting to the Secretary. Environmental affairs will be organized into divisions for environmental protection, conservation and recreation, agricultural resources, and fish, wildlife and environmental law enforcement. Eliminating the Metropolitan District Commission and the Department of Environmental Management and consolidating their core functions within the new Division of Conservation and Recreation will save $11.5 million.

Economic Affairs

A new Executive Office for Economic Affairs will spur economic recovery in Massachusetts, attracting jobs and investment by combining various fragmented efforts into a regional approach.

Health & Human Services

Health and Human Services (HHS) represents almost 48 percent of state spending. Sixteen agencies serve many of the Commonwealth's most vulnerable citizens. The lack of a unified mission has led to uncoordinated services and a fragmented system for those in need.

The Romney budget anticipates a major restructuring of HHS including a new regional service delivery system. The restructured secretariat will implement a strong coherent vision for serving the Commonwealth's most vulnerable citizens.

Key functions from all HHS agencies will be consolidated in the Executive Office. These include information technology, human resources, legal services, budgeting, contracting, federal revenue and revenue maximization projects. The Executive Office will also include a health and human services financing section designed to maximize federal reimbursement of state expenditures.

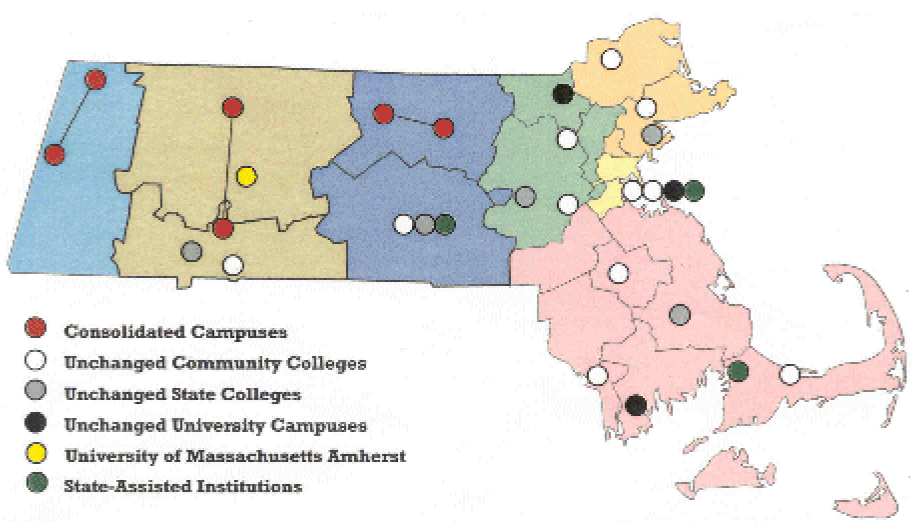
The Uncompensated Care Pool

The Romney administration recognizes and is committed to addressing the pressures that the current operation of the Uncompensated Care Pool places upon hospitals and community health centers that care for our uninsured citizens. Over the next two months, the Executive Office for Health and Human Services will work with the Legislature toward a consensus approach to relieving financial pressure on the Pool and improving its management. This reform will meet applicable federal requirements, draw upon additional federal dollars, and conform to the Commonwealth's budgetary constraints.

Education

A new Secretariat of Education will oversee all educational programs in four divisions: elementary and secondary education, higher education, quality and accountability and Arts and Humanities.

Higher education will be regionalized and administered by coordinating councils comprised of educators and local employers.



The chair of each regional coordinating council will sit on a newly configured Board of Higher Education along with eight other gubernatorial appointees.

All state and community college campuses and three of the University of Massachusetts campuses will be consolidated within the regional system. The University of Massachusetts at Amherst will operate as a Commonwealth-wide institution outside the regional design. Campuses will retain 100 percent of tuition and fees, enabling state resources to be focused on need-based aid.

Three campuses – University of Massachusetts Medical School, Massachusetts College of Art and the Massachusetts Maritime Academy – will become state-assisted institutions with continuing need-based aid for Massachusetts residents.

This restructuring will save a total of $150 million in 2004. Consolidation and reorganization under the regional structure will save $100 million. Another $50 million will be saved by restructuring tuition, fees and financial aid.

Consolidated campuses: +
Transition sponsorship to non-state funded: *

REGIONS	**Campuses**
Berkshire	Berkshire Community College + Massachusetts College of Liberal Arts +
Pioneer Valley	Greenfield Community College + Holyoke Community College + Springfield Technical Community College Westfield State College
Central	Mount Wachusett Community College + Fitchburg State College + Quinsigamond Community College Worcester State College
MetroWest	Massachusetts Bay Community College Middlesex Community College Framingham State College University of Massachusetts Lowell

Northeast	North Shore Community College Northern Essex Community College Salem State College
Boston	Bunker Hill Community College Roxbury Community College University of Massachusetts Boston Massachusetts College of Art *
Southeast	Bristol Community College Cape Cod Community College Bridgewater State College Massasoit Community College University of Massachusetts Dartmouth Massachusetts Maritime Academy *

Streamlined agency organization

Executive Office of the Governor	
Executive Office	
Office of Solicitor General	**NEW**
Executive Office for Administration & Finance	
Executive Office	
Office of Administrative Hearings	**NEW**
Department of Capital Assets	Renamed
Department of Revenue	
Division of Local Services	
Department of Human Resources	Renamed
Division of Group Benefits	Renamed
Department of Information Technology	Renamed
Department of Procurement	Renamed
Executive Office for Commonwealth Development	**NEW**
Executive Office	**NEW**
Department of Housing and Community Development	
Department of Environment	Renamed
Department of Transportation	Renamed
Executive Office for Economic Affairs	**NEW**
Executive Office	**NEW**
Department of Business and Technology	Renamed
Department of Consumer and Commercial Services	Renamed
Department of Labor	Renamed
Executive Office for Education	**NEW**
Executive Office	**NEW**
Division of Educational Quality and Accountability	**NEW**
Department of Elementary and Secondary Education	**NEW**
Department of Higher Education	**NEW**

Executive Office for Health and Human Services	
Executive Office	
Department of Elder and Veteran Affairs	**NEW**
Department of Children, Youth and Family Services	**NEW**
Department of Health Services	**NEW**
Department of Disabilities and Community Services	**NEW**
Executive Office for Public Safety and Homeland Security	Renamed
Executive Office	
Department of Correction	
Department of Emergency Services	**NEW**
Department of Motor Vehicles	Renamed
Department of State Police	

Comparison to existing executive branch organization

PROPOSED ARTICLE 87 REORGANIZATION	COMPARED TO EXISTING ORGANIZATION
Executive Office of the Governor	Consolidated press, legislative functions
Office of Solicitor General	*Legal services widely dispersed throughout agencies*
Executive Office for Administration & Finance	Same
Office of Administrative Hearings	*Consolidates 5 programs*
Department of Capital Assets	Consolidated real estate, maintenance, space mgmt
Department of Revenue	Same
Division of Local Services	Expanded role in local aid distributions
Department of Human Resources	Consolidated HR functions
Division of Group Benefits	Closer integration with human resources
Department of Information Technology	Consolidated IT functions
Department of Procurement	Same
Executive Office for Commonwealth Development	New executive office, consolidates programs
Department of Housing and Community Development	Same
Department of Environment	Consolidates 5 agencies: DEM, DEP, MDC, F&W, AGR
Department of Transportation	Same
Executive Office for Economic Affairs	New executive office, consolidates programs
Department of Business and Technology	Consolidates 9 programs, commissions

Department of Consumer and Commercial Services	Consolidates 7 divisions, departments, and programs
Department of Labor	Consolidates 2 divisions, various programs
Executive Office for Education	New executive office, consolidates programs
Division of Educational Quality and Accountability	Strengthens accountability and review
Department of Elementary and Secondary Education	Consolidates various boards and commissions
Department of Higher Education	Consolidates campuses into regionalized institution
Executive Office for Health and Human Services	Broadened scope, consolidates programs
Department of Elder and Veteran Affairs	Consolidates 2 departments
Department of Children, Youth and Family Services	Consolidates 5 departments
Department of Health Services	Consolidates 4 departments
Department of Disabilities and Community Services	Consolidates 6 departments
Executive Office for Public Safety and Homeland Security	Consolidates various programs
Department of Correction	Same
Department of Emergency Services	Consolidates 11 departments and programs
Department of Motor Vehicles	Same
Department of State Police	Same

Other reorganization

Judiciary

The Romney budget saves $85 million by cutting duplication, waste and patronage from the courts while improving the delivery of core services:

- More than 160 individual line items have been consolidated into 17;
- Boston Municipal Court is merged into the state District Court;
- Eight underutilized courthouses are closed and consolidated into adjacent districts
- All civil legal services to the poor are consolidated under the Massachusetts Legal Assistance Corporation.

Massachusetts Turnpike Authority

The Romney budget consolidates management of the Massachusetts Turnpike with the Massachusetts Highway Department to eliminate duplication of effort and overhead. For Fiscal Year 2004, the Turnpike Authority Board will be reconstituted and consist of the Secretaries of Administration and Finance, Commonwealth Development and Transportation. The Commonwealth will assume responsibility for collection of toll revenues and repayment of outstanding Turnpike debt. Operations and maintenance will be consolidated with the Highway department, resulting in annual savings of more than $30 million. These moves represent an interim step toward the ultimate goal of merging the Turnpike and Highway Department.

Registry of Deeds

In addition to fee increases, the Romney budget consolidates management of semi-independent registries of deeds under the Secretary of State. Separate line items accounts are consolidated under one master account for all registries.

Budgetary Reforms

The budget process itself requires new thinking. The Romney administration and the staffs of the Ways and Means Committees should standardize the way in which budgetary information is collected, maximizing efficiency and allowing state agencies to focus on their missions.

Once the data is collected, budget writers should focus on the long-term impacts of their actions with future fiscal and economic impacts informing current decisions. Taxes should also be viewed in the context of their long-term impact. Tax changes should be dynamically scored – a process that takes into account how their impact on decisions made in the private economy will affect tax receipts.

Fund consolidation

The Commonwealth currently has over 100 minor fund accounts, none of which are required for proper accounting methodology. Since they are not included in the overall fiscal balance calculation, these minor funds unnecessarily obscure our actual position and thus they complicate accounting and reporting systems.

A number of these funds are structurally imbalanced and fund revenues are insufficient to support appropriations from the fund, resulting in chronic deficits. The Romney budget eliminates all unnecessary minor funds and simplifies fund accounting by recognizing only:

1. General Fund (the basic fund for operating budget appropriations);
2. Stabilization Fund (for reserves);
3. Highway Fund;
4. Intragovernmental Service Fund (for payments between agencies); and
5. Tax Reduction Fund.

Master accounts and flexible line items

The Fiscal Year 2003 budget contains about 700 individual line items, excluding trusts and grants. Including all spending sources, the number of line items is nearly 1800. A line item constitutes an absolute spending limit as well as a restriction on alternative uses of the funds. If two related line items serve essentially the same objective – homelessness, for example –

and one is depleted while the other has a surplus, funds cannot be transferred across line items without legislative action. Line items are the foundation behind the “silo” structure of state government.

The Romney budget modifies traditional line item budgeting. Line items will be retained for accounting and control purposes, but greater management flexibility will be created through 72 new master accounts covering all state spending.

The following management flexibility applies equally to all branches of government:

- Spending cannot exceed the total of any master account
- Restrictions, if any, remain in effect for federal grants
- Within each master account, Secretaries will have the discretion to transfer the lesser of:
    - $250,000 or 5 percent of any individual line item amount may be transferred to another line item within the master account with prior notification to Administration and Finance (A&F)
    - an additional $1 million or 20 percent of any individual line item amount may be transferred with prior A&F approval and notification to House and Senate Ways & Means Committees (W&M)
    - an additional $1.25 million or 25 percent of any individual line item amount may be transferred with prior A&F and W&M notification if not denied within 20 days
    - an additional $2.5 million or 50 percent of any individual line item amount may be moved with prior A&F and W&M approval.

The ability to transfer funds between accounts will save money by reducing the need for supplemental appropriations.

Retained revenue incentives

The Romney budget provides important incentives by establishing new retained revenue opportunities. Allowing departments to retain a percentage of collected fees creates an incentive to properly collect revenue and thereby reduce appropriations. Within the Judiciary alone, new retained revenues will save taxpayers $41.5 million in 2004.

Executive Summary

Workforce Reforms

Public employment systems developed a century ago are ill suited to the realities of today's 21st century economy. The current fiscal crisis demands a comprehensive overhaul of how the Commonwealth manages its workforce. Implementation of the reforms described here will save $115 million during the coming year.

Elimination of Civil Service

Civil Service is an outdated and costly system. Collective bargaining and general employment law now provide employees with extensive protections against arbitrary dismissal. Following successful examples in Georgia, Florida, and Texas as well as the Federal Department of Homeland Security, the Romney budget eliminates Civil Service for most state employees. The Commonwealth continues merit testing for public safety employees, but state and municipal managers will be freed from the unnecessary bureaucracy of civil service.

Reform of anti-outsourcing law

Massachusetts is the only state that virtually prohibits outsourcing of any functions currently performed by state employees. State law mandates that private bids be compared to a fictional cost if public employees were to work "in the most cost-efficient manner." The Romney budget reforms the law, freeing managers to seek lower cost or higher quality alternatives and restoring competition to the delivery of state services. This reform alone will save $50 million in 2004.

Redefining managers and supervisors

Public managers face strict limitations that far exceed private sector management-labor rules. The Romney budget recognizes that these inherent management rights, many of which have been taken away over the past 30 years, must be reinstated. For example, under Massachusetts law, supervisors are union members, compromising their ability to supervise effectively. The Romney budget reforms state law to remove supervisors from union membership and bring Massachusetts in line with the National Labor Relations Act.

Collective bargaining rights should not determine which employees are hired, fired, or promoted. They certainly should not determine how state services are delivered. Fair and reasonable limitations to the scope of collective bargaining will permit the Commonwealth to deliver core services more efficiently.

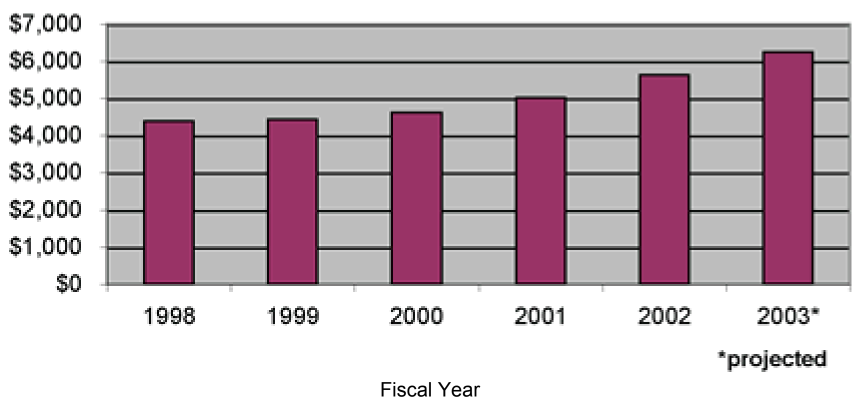
Pensions

The state's pension system is antiquated and underfunded. A lack of portability unfairly punishes younger workers. Benefits should become proportional to contributions, ending unfair subsidies of some employees by others. In the coming months, the Romney administration will file more comprehensive pension reform legislation.

Health benefits

Health care costs are skyrocketing for all Massachusetts residents. Spending on state employee and retiree health care increased from $598 million in 1998 to $797 million in 2002 -- a 33 percent cost increase with only a 3.8 percent growth in enrollment.

Total Healthcare Cost Per Subscriber

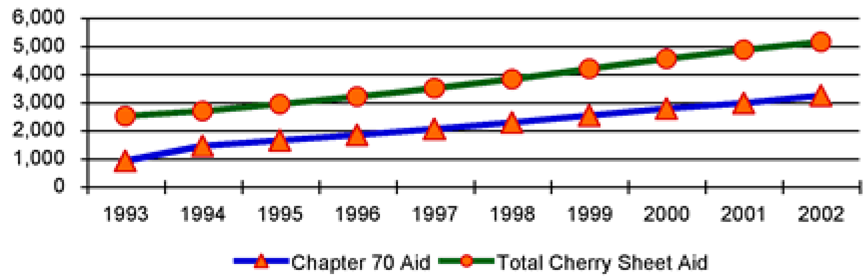


Because state employees currently pay only a fixed 15 percent of premiums, they have little incentive to choose economical plans and providers have little incentive to control costs. The Romney budget calls for level funding of the newly named Division of Group Benefits and gives it greater flexibility to set rates and provide incentives for choosing less costly plans.

Local Aid

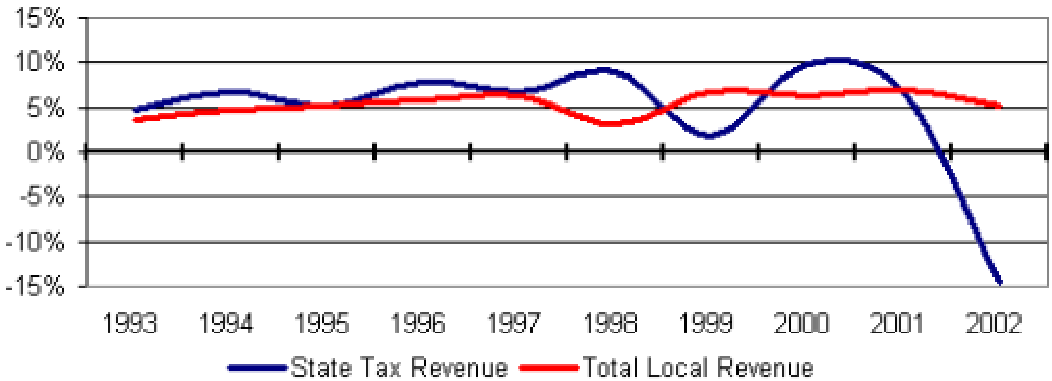
Over the last decade, local aid grew by an average of 7.5 percent per year and aid to municipalities and school districts more than doubled between 1993 and 2003, from $2.5 billion to $5.1 billion.

Growth in State Aid



As state revenues fell during the past two years, local revenues continued to grow. In 2002, local property taxes grew 6.4 percent, primarily due to new real estate developments, while state revenues fell 14.6 percent.

Local Property Tax versus State Tax Revenue Trends



The Commonwealth cannot continue to maintain the same level of aid to municipalities that it has provided in the past. Cities and towns must share in the sacrifice during these difficult times. But even in the midst of a fiscal crisis, cuts to local aid will only be about 4 percent on average. Based on recent growth in property tax and other local revenues the overwhelming majority of Massachusetts municipalities will see total revenues increase in 2004. See local aid language in outside section.

Focus on education

The Romney budget concentrates almost 80 percent of local aid in Chapter 70 distributions earmarked for public education. Overall, Chapter 70 funding increases by about 2 percent over projected 2003 levels for a total distribution of more than $3.3 billion in state aid. Changes to the distribution formula will enhance fairness and ensure that all schools are sufficiently funded. The formula provides additional funding to address challenges associated with educating low-income students and those with limited English proficiency. Special education funding will also increase, easing the financial pressures associated with educating severely disabled students.

The new formula also corrects previous inequities. Previously, municipalities that devoted a larger portion of their budget to education were often penalized and others required to maintain a level of education spending that squeezed out other spending. The Romney budget proposes a simplified formula that will treat municipalities with similar wealth and income comparably.

Fairness

Some localities support substantial state government operations, but cannot collect property taxes on state-owned real estate. Since municipalities rely almost exclusively on local real estate taxes, this places an unfair burden on a few cities and towns. To offset losses from state property, the Romney budget increases Payments in Lieu of Taxes (PILOT) from $10 million to $172 million.

New incentives

To help address the Commonwealth's housing shortage, the Romney administration will award additional local aid to municipalities in 2005 based on the number of building permits they issue in 2004. This revised formula will help offset infrastructure and education expenses for new residents. In addition, a temporary mitigation account will ease the transition for towns that face the largest declines in aid under the new formulas.

Executive Summary

Revenues

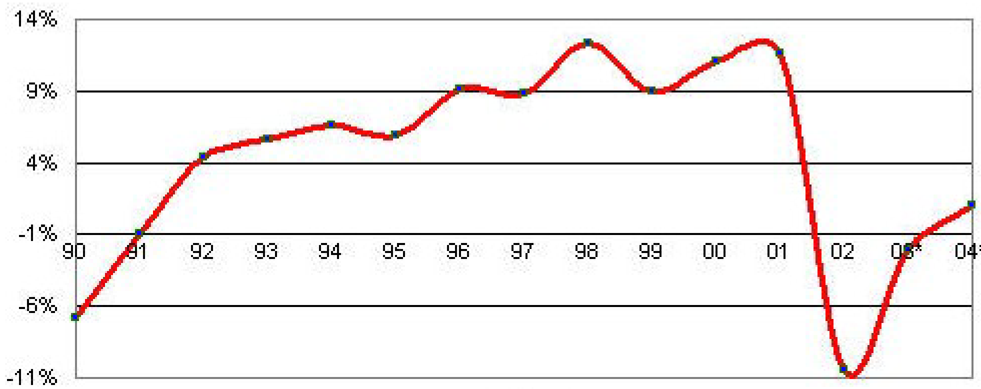
Tax revenues

Consensus forecast

Administration and legislative leaders have reached consensus on a tax revenue forecast of $14.678 billion. This estimate is only a 0.2 percent increase ($30 million) over expected Fiscal Year 2003 revenues and baseline growth of 1 percent – less than the rate of inflation. Economic recovery is not assumed in this consensus.

Baseline growth in the 1989-1991 recession initially plunged and then recovered. A similar trajectory is projected for the current fiscal situation, but starting from a more rapid rate of contraction: from -10 percent in 2002 and then rising to 1 percent in 2004.

Baseline Revenue Growth



* estimates

Risks and uncertainties

Compared to outside expert opinion, the consensus forecast of tax revenues is a conservative one that reflects uncertainty about economic recovery and world political stability.

Further decline in capital gains and corporate profits taxes – which fueled the Fiscal Year 2002 tax dive – has been discounted to the point that additional risk is low. Remaining risk can be attached to a more dramatic decline in employment than experienced to date – in other words, an accelerating downward economic cycle.

Non-tax revenues

Rationalized fee structures

Based on a comprehensive review, the Executive Office for Administration and Finance determined that the Commonwealth's fees have generally not kept pace with inflation and that certain fees do not cover the costs of the services they support. A rationalized structure better aligned with current market conditions is reflected in the Romney budget. The overall budgetary impact is $59 million.

Federal revenue

In 2003, the Commonwealth will receive $4.6 billion – about 20 percent of the overall budget – in reimbursements from the federal government. About $3 billion is for Medicaid expenditures, which are generally reimbursed at a rate of approximately 50 percent.

Massachusetts receives more than $459 million in block grants for the Temporary Assistance to Needy Families (TANF) program. To receive the grant, the Commonwealth must spend about $359 million of appropriated funds on the program. TANF assistance is provided to needy families through a variety of programs administered by departments across state government.

Casino Gambling

In order to avoid building costly new casinos that would create excess regional gaming capacity, Massachusetts will negotiate $75 million in revenue sharing payments from casinos in neighboring states. If unable to secure the appropriate payment, the Commonwealth will pursue the introduction of video lottery games at existing gaming sites.

Executive Summary

Capital Spending

The Commonwealth's capital budget supports construction and maintenance of a variety of important public assets that contribute to the economic well-being and quality of life in Massachusetts. Fiscally responsible management of our long-term assets is essential.

In order to maximize the effectiveness of capital investments, the Executive Office for Administration and Finance is undertaking a comprehensive strategic review of the Commonwealth's capital planning practices to ensure that the capital spending program fits within a sustainable growth framework.

This review entails an examination of how capital spending priorities are established and financed as well as whether additional or alternative planning tools might be useful for determining the prioritization of capital investments and the resulting allocation of capital resources. We are also looking at whether the current annual capital spending cap of $1.2 billion is set at the appropriate level, given such factors as historical patterns of capital spending and finance, the growth in the depth and breadth of the Massachusetts economy over the past decade, the need to invest in the infrastructure to assure a base for continued future growth and preservation of the long-term viability of existing assets.

About $3 billion will be spent on capital projects in 2003. Subject to the strategic review now underway, the table below summarizes planned capital spending.

USES	**2003**	**2004**	**2005**	**2006**	**2007**	**Total**
Transportation	$ 2,028	$ 1,632	$ 1,290	$ 923	$ 710	$ 6,583
Infrastructure	282	279	252	252	252	1,317
Economic Development	350	222	47	44	54	717
Environment	129	125	125	125	125	629
Housing	114	113	101	101	101	529
Information Technology	86	115	105	105	105	516
Public Safety	41	29	21	21	21	132
Reserve	1	26	114	117	107	365
TOTAL USES	**$3,030**	**$2,540**	**$2,055**	**$1,688**	**$1,475**	**$10,788**
SOURCES	**2003**	**2004**	**2005**	**2006**	**2007**	**Total**
Long-Term Debt						
Statutory Limit	$1,225	$1,200	$1,200	$1,200	$1,200	$6,025
Not Subject to Statutory Limit	576	103	100	--	--	778
Special Obligation Debt	259	148	--	--	--	406
Grant Anticipation Notes	--	--	--	--	--	--
Operating revenues	27	480	283	22	--	812

Third-Party payments	245	117	134	185	--	682
Federal payments	698	492	338	281	275	2,084
TOTAL SOURCES	**$3,030**	**$2,540**	**$2,055**	**$1,688**	**$1,475**	**$10,788**

Estimates include funds on deposit and certain dedicated fees and earnings.

Debt issuance

The primary source of funding for capital spending is proceeds from the sale of long-term debt. The state issues two types of bonds. The first is general obligation bonds that are backed by the full faith and credit of the Commonwealth. These bonds are subject to the annual capital spending limitation and debt service is paid through the operating budget. In 2003, an additional $25 million in general obligation bond authorization was carried forward from the previous year. For Fiscal Year 2004 and beyond, the appropriate level will be determined based upon the results of the comprehensive review referenced above.

The second type of long-term debt is special obligation bonds, which are not subject to the cap. These bonds are backed by and financed through a dedicated revenue stream, such as registration and license fees. The current plan calls for expending $835 million of such debt in 2003 and $251 million in 2004.

Other sources

Massachusetts receives federal reimbursements for transportation-related improvements: $689 million in 2003 and $492 million in 2004 is anticipated, primarily as shared funding of the Central Artery/Tunnel project. The Commonwealth also receives various fees and payments, including contributions from the Massachusetts Water Resources Authority to offset watershed land protection costs and from the Massachusetts Port Authority for the Central Artery/Tunnel project. In 2003, $245 million in capital investments will come from third-party sources; $117 million is anticipated for 2004.

If our state government were to continue to grow unchecked from FY03 to FY04, the Commonwealth's spending would balloon from $22.4 billion to $24.4 billion. At that unsustainable growth rate of 8.6%, unsupported by projected revenue, our deficit is $3.2 billion. Since some spending is contingent on federal revenue, on a net basis the gap to close is $2.8 billion.

This budget constrains spending to $22.86 billion, a growth rate of just .5% after adjusting for certain spending moving on and off budget from FY03. A table illustrates this below:

FY03 Spending vs. FY04 House 1: (millions)

	FY03 Projected Spending	FY04 House 1	% Change
Base Spending	22,452	22,553	**0.45%**
On/off budget adjustments, net	282	305	
	22,734	**22,858**	**0.55%**

While the budget as a whole is nearly flat, some areas, like Medicaid and debt service, are driven by factors beyond management control. As a result, other program funding must drop in order to maintain fiscal balance.

	FY03 Projected Spending	FY04 House 1	Variance	% Change
Medicaid	5,968	6,502	534	8.9%
K-12 Education	4,085	4,110	25	0.6%
Debt Service	1,518	1,593	75	4.9%
Subtotal, all of the above	**11,571**	**12,205**	634	**5.5%**
Subtotal, all other	11,164	10,653	(511)	-4.6%
Total	**22,734**	**22,858**	124	**0.5%**

The $2.8 billion in solutions breaks out across three major categories:

FY04 $2.8B Solutions by type:		
Program/Eligibility reductions	272	10%
Local Aid	350	12%
Reform and Restructuring	2,173	78%
	2,795	**100%**

A detailed breakout of each of these categories follows:

Reform and Restructuring		**2,173**
Health and Human Services		**425**
Health Care Reforms	176	
Premiums and co-pays (19)		
Drug Utilization and Case Management (87)		
Tightening Eligibility Procedures (27)		
Adjusting Rates (22)		
Long term care reform (21)		
Administrative Consolidations and Restructuring	90	
Maximizing federal revenue	159	
Higher Education		150
Administrative Consolidations and Restructuring	100	
Restructuring tuition, fees and financial aid	50	
Judiciary		**84**
Administrative Consolidations and Restructuring	43	
Revenue incentives for Probation/Public Defenders	41	
Asset Management		**371**
Mass. Turnpike debt restructuring and refinancing	191	
Transfer of surplus land to pension fund	180	
Tax Loopholes and Administrative Changes		**166**
Loophole closing	128	
Changing interest rate from 4 to 2% above market	28	
Changing valuation of used vehicles for sales tax	10	
Management Reforms		**368**
Changing state employee health premiums to 25%	80	
Eliminating refund for mandatory Medicare Part B	25	
Workforce and other reforms	263	
Revenue Restructuring		**610**
Transfers and other changes	246	
Registry of Deeds fee restructuring	230	
Casino mitigation	75	

Fee Rationalization	59	
Local Aid (Actual cut from FY03 spending is $232M)		**350**
Program/Eligibility Reductions		**272**
Suspend Prescription Advantage, pending federal action	98	
Reductions from Governor's FY03 emergency actions	174	
Grand Total, all FY04 deficit solutions		**2,795**

FISCAL YEAR 2002
FINANCIAL STATEMENT
Budgeted Funds (in millions)

	ALL FUNDS	GENERAL FUND	LOCAL AID FUND	HIGHWAY FUND	OTHER FUNDS
FISCAL YEAR 2002 BEGINNING BALANCES					
Undesignated Fund Balance	369.4	410.4	(311.8)	(14.9)	285.7
Stabilization Fund Balance	1,715.0	0.0	0.0	0.0	1,715.0
Tax Reduction Fund	33.6	0.0	0.0	0.0	33.6
Reserved or Designated Fund Balance	895.3	183.0	33.3	33.1	645.9
SUBTOTAL, FISCAL YEAR 2002 BEGINNING BALANCES	**3,013.3**	**593.4**	**(278.5)**	**18.2**	**2,680.2**
REVENUES AND OTHER SOURCES					
Taxes	13,626.2	8,159.9	4,610.2	569.8	286.3
Federal Reimbursements	4,405.5	3,342.0	0.0	0.7	1,062.9
Departmental Revenue	1,712.3	1,005.8	19.2	534.2	153.0
Consolidated Transfers	1,431.0	1,976.1	854.0	(94.8)	(1,304.3)
SUBTOTAL, FISCAL YEAR 2002 REVENUES	**21,174.9**	**14,483.8**	**5,483.4**	**1,009.9**	**197.9**
TOTAL, FISCAL YEAR 2002 AVAILABLE RESOURCES	**24,188.3**	**15,077.2**	**5,204.9**	**1,028.1**	**2,878.1**
EXPENDITURES AND USES					
Direct Appropriations	22,005.0	13,224.2	5,870.4	1,168.9	1,741.6
Balances Forward for Continuing Appropriations	290.0	183.0	33.3	7.0	66.7
Authorized Spending from Retained Revenue	208.3	170.1	0.0	1.6	36.6
Lottery Distributions to Cities and Towns	778.1	0.0	778.1	0.0	0.0
Unspent Appropriations Continued to Fiscal Year 2000	(169.0)	(83.1)	(28.3)	(2.2)	(55.5)
Anticipated Reversions	(312.1)	(154.7)	(32.6)	(33.2)	(91.6)
TOTAL, FISCAL YEAR 2002 EXPENDITURES	**22,800.3**	**13,339.5**	**6,620.8**	**1,142.1**	**1,697.9**
END OF FISCAL YEAR RESERVED BALANCES					
Reserved for Continuing Appropriations	169.0	83.1	28.3	2.2	55.5
Designated for Debt Service	26.1	0.0	0.0	26.1	0.0
FISCAL YEAR 2002 UNDESIGNATED FUND BALANCE	**1,192.8**	**1,654.6**	**(1,444.2)**	**(142.3)**	**1,124.7**
Balances Reserved in Other Budgeted Funds	(1,124.7)	0.0	0.0	0.0	1,124.7
FISCAL YEAR 2002 SURPLUS	**68.1**				
FISCAL YEAR 2002 ENDING BALANCES					
Undesignated Fund Balance	311.0	1,654.6	(1,444.2)	(142.3)	242.9
Stabilization Fund Balance	881.8	0.0	0.0	0.0	881.8
Tax Reduction Fund	0.0	0.0	0.0	0.0	0.0
Reserved or Designated Fund Balance	195.2	83.1	28.3	28.3	55.5
TOTALS, FISCAL YEAR 2002 ENDING BALANCES	**1,388.0**	**1,737.7**	**(1,415.9)**	**(114.0)**	**1,180.2**

FISCAL YEAR 2003
PROJECTED FINANCIAL STATEMENT
Budgeted Funds (in millions)

	ALL FUNDS	GENERAL FUND	LOCAL AID FUND	HIGHWAY FUND	OTHER FUNDS
FISCAL YEAR 2003 BEGINNING BALANCES					
Undesignated Fund Balance	311.0	1,654.6	(1,444.2)	(142.3)	242.9
Stabilization Fund Balance	881.8	0.0	0.0	0.0	881.8
Tax Reduction Fund	0.0	0.0	0.0	0.0	0.0
Reserved or Designated Fund Balance	195.2	83.1	28.3	28.3	55.5
SUBTOTAL, FISCAL YEAR 2003 BEGINNING BALANCES	**1,388.0**	**1,737.7**	**(1,415.9)**	**(114.0)**	**1,180.2**
REVENUES AND OTHER SOURCES					
Taxes	14,063.7	8,477.5	4,719.2	591.8	275.2
Federal Reimbursements	4,589.2	3,561.0	0.0	0.7	1,027.5
Departmental Revenue	1,513.4	915.3	1.0	398.7	198.4
Consolidated Transfers	1,490.2	1,108.1	858.4	(31.8)	(444.5)
SUBTOTAL, FISCAL YEAR 2003 REVENUES	**21,656.6**	**14,061.9**	**5,578.6**	**959.4**	**1,056.7**
TOTAL, FISCAL YEAR 2003 AVAILABLE RESOURCES	**23,044.5**	**15,799.6**	**4,162.7**	**845.4**	**2,236.9**
EXPENDITURES AND USES					
Direct Appropriations	21,418.3	13,168.2	5,651.8	930.0	1,668.2
Balances Forward for Continuing Appropriations	169.0	83.1	28.3	2.2	55.5
Authorized Spending from Retained Revenue	230.7	196.3	0.0	11.6	22.8
Lottery Distributions to Cities and Towns	705.3	0.0	705.3	0.0	0.0
Contingency Reserve	58.1	54.6	0.0	0.0	3.5
Target Savings	0.0	0.0	0.0	0.0	0.0
Unspent Appropriations Continued to Fiscal Year 2003	0.0	0.0	0.0	0.0	0.0
Anticipated Reversions	(122.0)	(116.2)	(3.3)	(0.8)	(1.8)
TOTAL, FISCAL YEAR 2003 EXPENDITURES	**22,459.5**	**13,386.0**	**6,382.2**	**943.0**	**1,748.2**
END OF FISCAL YEAR RESERVED BALANCES					
Reserved for Continuing Appropriations	0.0	0.0	0.0	0.0	0.0
Designated for Debt Service	26.1	0.0	0.0	26.1	0.0
FISCAL YEAR 2003 UNDESIGNATED FUND BALANCE	**558.9**	**2,413.6**	**(2,219.5)**	**(123.8)**	**488.6**
Balances Reserved in Other Budgeted Funds	(488.6)	0.0	0.0	0.0	488.6
FISCAL YEAR 2003 SURPLUS	**70.3**				
FISCAL YEAR 2003 ENDING BALANCES					
Undesignated Fund Balance	221.3	2,413.6	(2,219.5)	(123.8)	151.0
Stabilization Fund Balance	337.6	0.0	0.0	0.0	337.6
Tax Reduction Fund	0.0	0.0	0.0	0.0	0.0
Reserved or Designated Fund Balance	26.1	0.0	0.0	26.1	0.0
TOTALS, FISCAL YEAR 2003 ENDING BALANCES	**585.1**	**2,413.6**	**(2,219.5)**	**(97.6)**	**488.6**

FISCAL YEAR 2004
PROJECTED FINANCIAL STATEMENT
Budgeted Funds (in millions)

	ALL FUNDS	GENERAL FUND	HIGHWAY FUND	STABILIZATION FUND
FISCAL YEAR 2004 BEGINNING BALANCES				
Undesignated Fund Balance	70.3	194.1	(123.8)	0.0
Stabilization Fund Balance	337.6	0.0	0.0	337.6
Tax Reduction Fund	0.0	0.0	0.0	0.0
Reserved or Designated Fund Balance	26.1	0.0	26.1	0.0
SUBTOTAL, FISCAL YEAR 2004 BEGINNING BALANCES	**434.0**	**194.1**	**(97.6)**	**337.6**
REVENUES AND OTHER SOURCES				
Taxes	14,115.7	13,515.6	600.1	0.0
Federal Reimbursements	5,014.9	5,014.3	0.7	0.0
Departmental Revenue	2,283.1	1,529.4	746.7	7.0
Consolidated Transfers	1,526.1	1,570.0	(43.8)	0.0
SUBTOTAL, FISCAL YEAR 2004 REVENUES	**22,939.9**	**21,629.2**	**1,303.6**	**7.0**
TOTAL, FISCAL YEAR 2004 AVAILABLE RESOURCES	**23,373.9**	**21,823.3**	**1,206.0**	**344.6**
EXPENDITURES AND USES				
Direct Appropriations	22,153.7	20,841.8	1,311.9	0.0
Balances Forward for Continuing Appropriations	0.0	0.0	0.0	0.0
Authorized Spending from Retained Revenue	285.6	282.0	3.6	0.0
Lottery Distributions to Cities and Towns	419.0	419.0	0.0	0.0
Contingency Reserve	0.0	0.0	0.0	0.0
Anticipated Reversions	0.0	0.0	0.0	0.0
TOTAL, FISCAL YEAR 2004 EXPENDITURES	**22,858.3**	**21,542.8**	**1,315.5**	**0.0**
END OF FISCAL YEAR RESERVED BALANCES				
Reserved for Continuing Appropriations	0.0	0.0	0.0	0.0
Designated for Debt Service	26.1	0.0	26.1	0.0
FISCAL YEAR 2004 UNDESIGNATED FUND BALANCE	**489.5**	**280.5**	**(135.6)**	**344.6**
STRUCTURAL BALANCE -- ALL FUNDS	**81.6**	**86.4**	**(11.9)**	**7.0**
FISCAL YEAR 2004 ENDING BALANCES				
Undesignated Fund Balance	81.6	217.2	(135.6)	NA
Stabilization Fund Balance	344.6	0.0	0.0	344.6
Tax Reduction Fund	0.0	0.0	0.0	0.0
Reserved or Designated Fund Balance	26.1	0.0	26.1	0.0
TOTALS, FISCAL YEAR 2004 ENDING BALANCES	**452.4**	**217.3**	**(109.5)**	**344.6**